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BILL ANALYSIS

BILL NUMBER: House Bills 6194, 6195 and 6196
TOPIC: Insurer Board of Directors Provisions
SPONSOR: Representatives Leslie Mortimer and Dave Hildenbrand
COMMITTEE: House Insurance
Analysis Done: June 14, 2006

POSITION

The Office of Financial and Insurance Services (OFIS) supports this legislation.

PROBLEM/BACKGROUND

OFIS and Michigan domestic insurers agree that provisions relating to board activity and officer compensation that are found in sections 5238, 5245 and 5248 of the Insurance Code of 1956 (Code), are outdated and in need of modernization. Changes proposed to these sections are designed to modernize the law and harmonize these areas of the Code so they more closely match the provisions for officer compensation found in the Banking Code.

DESCRIPTION OF BILL

House Bill 6194 adds the following to section 5238 of the Code:

- A requirement that a domestic insurer's board of directors meet at least 4 times during the fiscal year in person or by means of electronic communication.
- A requirement that each director when elected or appointed take an oath that he or she will diligently and honestly perform the duties of the office. The oath must be transmitted to the Commissioner for filing.

House Bill 6195 adds the following to section 5245 of the Code

- Allows a board to take action without holding a meeting if not prohibited by the articles or bylaws.
- Allows unanimous consent actions to be taken between board meetings and requires the written consents to be filed with the minutes of the proceedings of the board.

House Bill 6196 removes from section 5248 the following provisions:

- A requirement that compensation packages only be in effect for 12 months from the original date of the agreement.
- Restrictions on pension benefits or life insurance benefits for retired officers, directors, or employees.
- A requirement that the Commissioner approve retiree health care benefits for officers and employees.

SUMMARY OF ARGUMENTS

Pro

OFIS has successfully worked with members of the domestic insurance industry to eliminate unnecessary and outdated language from these sections while at the same time preserving essential good governance provisions.

It makes good sense to update the Code by integrating these good governance provisions found in law regarding other regulated industries into the Code, such as requiring boards to meet a certain number of times per year; permitting remote participation using electronic means; and requiring new board members to take an oath of office.

Insurers are currently required to submit to OFIS for approval any pension or retirement plans that may be granted to officers and directors. House Bill 6196 eliminates the regulatory burden of making these filings with OFIS from section 5248. This filing is unnecessary because the board of directors reviews and approves the plan and, in some cases, the Internal Revenue Service must approve the plan. While unnecessary language has been eliminated, key language ensuring that boards will vote on officer and director compensation and the overall reasonableness limitation on compensation has been retained.

Con

OFIS is unaware of any opposition to this legislation.

FISCAL/ECONOMIC IMPACT

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services: None known

Budgetary:

Revenue:

Comments:

(b) To the Department of Labor and Economic Growth: None

Budgetary:
Revenue:
Comments:

(c) To the State of Michigan: None

Budgetary:
Revenue:
Comments:

(d) To Local Governments within this State: None

Comments:

OTHER STATE DEPARTMENTS

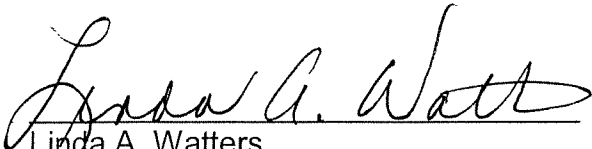
None known.

ANY OTHER PERTINENT INFORMATION

Amendments identical to the amendments in these bills are currently contained in House Bill 5292 that is on the Senate Floor. These amendments came out of the Senate Banking and Financial Institutions Committee on a unanimous vote in March, 2006 with no known opposition.

ADMINISTRATIVE RULES IMPACT

The OFIS has general rulemaking authority under the Insurance Code of 1956, 1956 PA 218.


Linda A. Watters
Commissioner

6-14-06
Date